

# STATE OF COLORADO

**DEPARTMENT OF PERSONNEL & ADMINISTRATION  
DIVISION OF FINANCE AND PROCUREMENT  
OFFICE OF THE STATE CONTROLLER**

1525 Sherman Street, Suite 250  
Denver, Colorado 80203  
Phone (303) 866-3281  
FAX (303) 866-4233



Bill Owens  
Governor

Troy A. Eid  
Executive Director

Arthur L. Barnhart  
State Controller

January 31, 2002

The Honorable Bill Owens  
Governor  
136 State Capitol Building  
Denver, Colorado 80203

Dear Governor Owens:

As required by statute, I am submitting a Quarterly Financial Report on the status of the state's financial condition for the six-month period ended December 31, 2001. This Quarterly Financial Report summarizes activity in the General Fund, the Capital Construction Fund, and budgeted funds statewide. My review of these reports along with recent revenue summary reports and estimates, leaves me concerned that without further action constitutional violations are likely to occur. These violations would result from the inability to maintain the currently designated TABOR emergency reserve and a possible deficit in the General Fund unreserved fund balance at June 30, 2002. It is my understanding that both the Joint Budget Committee and your administration are aware of this and are taking action to prevent the violations from occurring. I am hopeful that sufficient adjustments will be made in the supplemental process to align expenditures with revenues.

The attached Exhibit A provides a *Balance Sheet* for the Unrestricted General Fund and Capital Construction Fund at December 31, 2001. The General Fund portion of the *Balance Sheet* includes an \$816.9 million liability for the remaining fiscal year 2000-01 TABOR refund. This liability is recorded at the beginning of the fiscal year to reserve fund balance as required by statute.

The primary reason for the large unreserved fund balance deficit is that House Bill 98-1414 does not reserve the TABOR surplus in the year that it occurs; rather it spends the surplus on programs in the year that the surplus occurs and requires the state to refund the surplus from the following year's revenues. In a year like fiscal year 2001-02 when revenue growth is declining the state must still refund the prior year's surplus of \$927.0 million, which has already been appropriated; this creates substantial cash flow problems.

Other factors that contribute to the \$1,122.3 million deficit total fund equity are discussed in Exhibit B below. When four percent of appropriations are reserved, as is also required by law, the General Fund unreserved fund balance deficit is \$1,350.0 million. This compares to a deficit of \$879.5 million at December 31, 2000. The increase in the deficit is not related to the TABOR refund liability because that liability decreased by \$13.9 million from Fiscal Year 1999-00 to 2000-01. This condition exists primarily because a large portion of the TABOR excess revenues are expended rather than reserved until they are paid and because of a downturn in projected revenues.

The General Fund deficit is significant because the fund also has cash flow problems. The Liability to Pooled Cash of \$382.1 million is in addition to the state treasurer's borrowing of \$750.0 million. The state is increasingly dependent on future collections to repay this short-term borrowing and to pay other existing liabilities. However, the recent General Fund Revenue Summary Reports have shown consistent shortfalls relative to the revenue estimates, which had already been lowered by approximately \$608.0 million over the last three estimates.

At December 31, 2001, total payments on the Fiscal Year 1997-98 through Fiscal Year 1999-00 TABOR refund exceeded the required refund by \$142.0 million. A portion of that excess reduced fiscal year 2001-02 revenues by \$66.4 million.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the six-month period ended December 31, 2001. The Current Estimate/Budget column reflects the most recent OSPB estimate of revenues on the modified accrual basis for the fiscal year and current appropriations made by the General Assembly. This column shows an estimate of the General Fund need to reduce expenditures at June 30, 2002 by \$124.4 million. However, this estimate does not reflect the \$95.4 million revenue shortfall that occurred in December. Therefore, the current projected amount of reserve spending is more accurately stated as \$219.8 million. This is close to the full amount of the statutory reserve. However, because 75 percent of the \$227.2 million statutory reserve is also part of the 3 percent TABOR emergency reserve, it is not available to cover the full amount of reserve spending. When the remaining 25 percent of the statutory reserve is used to cover a portion of the reserve spending, the projected TABOR emergency reserve spending is \$163.0 million. While I understand that the Joint Budget Committee has discussed designating alternative sources of funds as the TABOR emergency reserve, no such official action has yet been taken.

Considering that the average monthly revenue shortfall over the past four months has been \$57.1 million, the next six months could show shortfalls that will increase this deficit. Note that the above analysis does not include the use of any General Fund resources to correct the \$45.8 million capital construction appropriation error discussed below. While it is appropriate that the estimate makes no provision for a Medicaid overexpenditure, such overexpenditures have occurred in recent years and are an additional risk to the projection of the reserve spending. Without action

by the legislative or executive branch to further reduce or restrict appropriations or identify additional funding, a constitutional violation is likely to occur due to a General Fund unreserved fund balance deficit at June 30, 2002.

At the end of the second quarter, actual general-purpose revenues were \$3,106.9 million, which is 47.3 percent of the annual estimate. However, this amount includes \$45.8 million transferred from the Capital Construction Fund in excess of estimated resources available in that fund. This error in Senate Bill 01S2-23 resulted in the Capital Construction Fund being over appropriated as discussed under Exhibit C below. Expenditures of the General Fund through the second quarter were 67.5 percent of current appropriations. This compares with the prior year figure of 67.2 percent of appropriations at December 31, 2000. Individual spending patterns above 50 percent for the second quarter are primarily caused by legal requirements to make transfers or expenditures early in the year. Examples include:

- The Department of Education's requirement to transfer nine months of public school moneys totaling \$1,675.2 million to the State Public School Fund by the end of the second quarter,
- The General Fund transfer of \$256.8 million to the Capital Construction Fund on July 1, 2001, and
- Recording the \$927.2 million Fiscal Year 2000-01 TABOR refund to be paid in fiscal year 2001-02.

Exhibit C is a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - Regular Capital Construction Fund - Budget and Actual* for the six-month period ended December 31, 2001. As noted above, Senate Bill 01S2-23 transferred \$219.3 million from the Capital Construction Fund back to the General Fund. However, this amount included \$45.8 million of General Fund transfer to the Capital Construction Fund that was not scheduled to be made until March 2002 and was cancelled by Senate Bill 01S2-23. As a result, the Current Estimate/Budget column shows a deficit ending unreserved fund balance of \$10.6 million. Note that this anticipated deficit is understated because the legislature did not adjust the estimated interest earnings of the fund to reflect the impact of the \$219.3 million cash transfer back to the general fund.

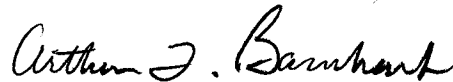
Expenditures of the Capital Construction Fund are expected to be less than outstanding appropriations because of the multi-year nature of the appropriations compared to current fiscal year expenditures. This timing difference between the revenues and expenditures, inherent in the multi-year appropriations process, causes a large variance between the estimated and the actual fund balance.

Exhibit D, *Combined Schedule of Revenues and Expenditures - All Budgeted Funds - Budget and Actual*, summarizes each department's spending authority for all budgeted funds by source of authority and tracks activity in those funds. This exhibit provides comprehensive information of statewide budgeted activity. Only state appropriated activities are included for college and university funds.

Governor Bill Owens  
Page 4 of 4  
January 31, 2002

Based on review of the attached financial reports and agency comments, I have presented the financial issues that I believe are significant to the state. Questions concerning this report should be directed to my office.

Sincerely yours,

A handwritten signature in black ink, reading "Arthur L. Barnhart". The signature is written in a cursive style with a large, stylized "A" and "B".

Arthur L. Barnhart  
State Controller

Attachments

Cc: Troy A. Eid, DPA  
Nancy McCallin, OSPB  
Kenneth Conahan, JBC

**BALANCE SHEET**  
**GENERAL AND CAPITAL CONSTRUCTION FUNDS**  
**DECEMBER 31, 2001**

(DOLLARS IN THOUSANDS)	UNRESTRICTED	
	GENERAL FUND	CAPITAL CONSTRUCTION
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$ -	\$ 315,354
Taxes Receivable, net	868,989	-
Other Receivables, net	61,176	3,196
Intrafund Receivables	15,793	1,720
Due From Other Governments	360,858	5,286
Due From Other Funds	884	2,151
Inventories	13,248	-
Prepays, Advances, and Deferred Charges	61,983	4,263
Investments	229,221	-
Other Long-Term Assets	445	187
<b>TOTAL ASSETS</b>	<b>\$ 1,612,597</b>	<b>\$ 332,157</b>
<b>LIABILITIES</b>		
Liability to Pooled Cash	\$ 382,074	\$ -
Tax Refunds Payable	378,074	-
Accounts Payable and Accrued Liabilities	284,634	14,816
TABOR Refund Fiscal Year 2000-01	816,934	-
Due To Other Governments	36,686	-
Due To Other Funds	10,607	1,279
Intrafund Payables	5,079	2
Deferred Revenue	62,058	434
Other Current Liabilities	758,368	-
Deposits Held in Custody for Others	193	-
Other Long-Term Liabilities	204	-
<b>TOTAL LIABILITIES</b>	<b>2,734,911</b>	<b>16,531</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved For:		
Encumbrances	-	216,170
Other Specific Purposes		2,801
Long-Term Assets and Loans Receivable	445	187
Statutory Reserve	227,200	-
Unreserved:		
Designated	-	96,468
Undesignated	(1,349,959)	-
<b>TOTAL FUND EQUITY</b>	<b>(1,122,314)</b>	<b>315,626</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,612,597</b>	<b>\$ 332,157</b>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNRESERVED FUND BALANCE - GENERAL FUND  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2001**

(DOLLARS IN THOUSANDS)	CURRENT ESTIMATE/ BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$ 1,482,700	\$ 862,217	
Other Excise Taxes	98,400	49,534	
Individual Income Tax, net	3,892,800	1,497,515	
Corporate Income Tax, net	301,100	81,584	
Estate Tax	80,400	48,578	
Insurance Tax	144,500	66,098	
Parimutuel, Courts, and Other	46,700	26,524	
Transfer from Controlled Maintenance Trust	244,000	243,900	
Transfer Back from Capital Construction	219,267	219,267	
Interest Earnings	22,200	11,673	
Gaming	31,700	-	
TOTAL GENERAL PURPOSE REVENUES	6,563,767	3,106,890	47.3%
EXPENDITURES:			
Agriculture	9,454	5,864	
Corrections	475,638	219,976	
Education	2,285,905	1,819,583	
Governor	20,216	7,566	
Health Care Policy and Financing	1,067,509	514,536	
Higher Education	757,379	385,172	
Human Services	502,027	257,641	
Judicial Branch	217,000	104,795	
Law	9,826	4,563	
Legislative Branch	31,102	12,879	
Local Affairs	14,402	6,500	
Military Affairs	3,938	2,003	
Natural Resources	28,900	14,974	
Personnel and Administration	20,986	7,792	
Public Health and Environment	34,277	17,445	
Public Safety	58,953	29,445	
Regulatory Agencies	1,979	1,119	
Revenue	180,648	81,632	
Treasury	31,297	30,294	
Fiscal Year 2000-01 TABOR Refund	927,201	927,201	
Transfer to the Economic Development Fund	-	-	
Transfer to the Capital Construction Fund	256,768	256,768	
Appropriation Restrictions Not Yet Recorded	(5,138)		
TOTAL GENERAL FUNDED EXPENDITURES	6,930,267	4,707,748	67.9%
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES			
	(366,500)	(1,600,858)	
EXCESS AUGMENTING REVENUES			
	-	8,918	
BEGINNING UNRESERVED FUND BALANCE			
Add Budgeted Non-GAAP Expenditures	-	1	
Deduct the GAAP Expenditures Not Budgeted	-	(2,749)	
Add GAAP Revenue Adjustments	-	2,701	
(Additions) Deductions to the Long-Term Loan Reserve	-	(34)	
(Additions) Deductions to the Statutory 4 Percent Reserve	(13,500)	(13,532)	
Adjustments for Consumable Inventory Fund	-	2	
ENDING UNRESERVED FUND BALANCE	\$ (124,400)	\$ (1,349,959)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNRESERVED FUND BALANCE  
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2001**

<b>(DOLLARS IN THOUSANDS)</b>	<b>CURRENT ESTIMATE/ BUDGET</b>	<b>ACTUAL</b>	<b>PERCENT OF ESTIMATE</b>
<b>REVENUES:</b>			
General Fund Transfer-In	\$ 256,768	\$ 256,768	
Interest Earnings	34,500	14,943	
<b>TOTAL CAPITAL CONSTRUCTION REVENUES</b>	<b>291,268</b>	<b>271,711</b>	<b>93.3%</b>
<b>EXPENDITURES:</b>			
Agriculture	6,316	1,384	
Corrections	33,393	7,848	
Education	5,595	1,386	
Governor	2,727	878	
Health Care Policy and Financing	7,784	92	
Higher Education	247,619	63,183	
Human Services	37,226	15,885	
Judicial Branch	1,833	24	
Law	97	34	
Local Affairs	1,809	1,311	
Military Affairs	2,929	476	
Natural Resources	473	473	
Personnel	47,563	12,765	
Public Health and Environment	11,221	742	
Public Safety	12,774	3,394	
Revenue	2,661	21	
Transportation	33,834	19,026	
Transfer Back to General Fund	219,267	219,267	
Intrafund Transfer-Out	4,620	4,620	
<b>NET EXPENDITURES AND AUGMENTING REVENUES</b>	<b>679,741</b>	<b>352,809</b>	<b>51.9%</b>
<b>EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES</b>	<b>(388,473)</b>	<b>(81,098)</b>	
<b>EXCESS AUGMENTING REVENUES</b>	<b>-</b>	<b>15,903</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS</b>	<b>239,029</b>	<b>239,029</b>	
(Additions) Deductions to Reserve for Encumbrances	138,804	(77,366)	
<b>ENDING UNRESERVED FUND BALANCE - GAAP BASIS</b>	<b>\$ (10,640)</b>	<b>\$ 96,468</b>	

**COMBINED SCHEDULE OF REVENUES AND EXPENDITURES**  
**ALL BUDGETED FUNDS - BUDGET AND ACTUAL**  
**BUDGETARY BASIS**  
**FOR THE SIX MONTHS ENDED DECEMBER 31, 2001**

(DOLLARS IN THOUSANDS)											
	LONG BILL	SPECIAL	SUPPLEMENTAL	OTHER	ROLL-		FEDERAL		CURRENT		UNDER/OVER
	APPROPRIATION	BILLS	APPROPRIATION	STATUTORY	FORWARDS	TRANSFERS	AND	RESTRICTIONS	SPENDING	ACTUAL	SPENDING
				AUTHORITY			CUSTODIAL		AUTHORITY		AUTHORITY
REVENUES AND TRANSFERS-IN:											
Sales and Other Excise Taxes										\$ 1,224,248	
Income Taxes										1,743,608	
Other Taxes										304,076	
Federal Grants and Contracts										1,467,880	
Tuition and Fees										465,121	
Sales and Service										487,926	
Interest Earnings										190,709	
Other Revenue										371,240	
Transfers-In										3,223,766	
Total Revenue and Transfers-In										9,478,574	
EXPENDITURES AND TRANSFERS-OUT:											
Departmental Operating Budgets											
Agriculture	\$ 30,702	\$ 105	\$ 81	\$ 2,406	\$ -	\$ -	\$ 3,199	\$ (3,939)	\$ 32,554	19,610	\$ 12,944
Corrections	538,906	870	-	3,259	975	-	2,629	(6,069)	540,570	247,266	293,304
Education	2,753,069	65,098	-	2,089,633	2,653	-	2,988	(147,513)	4,765,928	3,137,851	1,628,077
Governor	44,463	94	500	8,728	-	-	24,351	(21,807)	56,329	18,733	37,596
Health Care Policy and Financing	2,448,044	(652)	-	265	2,506	-	11,576	(42,108)	2,419,631	1,134,755	1,284,876
Higher Education*	1,611,763	534	-	782,063	19,147	-	60,608	(33,233)	2,440,882	837,418	1,603,464
Human Services	1,708,252	4,060	-	33,572	2,936	-	292,713	(506,208)	1,535,325	694,625	840,700
Judicial Branch	267,502	4,723	136	4,215	48	-	3,583	(5,698)	274,509	128,103	146,406
Labor and Employment	130,468	-	-	376,223	61,399	-	17,793	(12,755)	573,128	286,154	286,974
Law	33,371	170	-	298	549	-	961	(57)	35,292	16,128	19,164
Legislative Branch	3,399	29,296	-	1,106	1,171	-	-	-	34,972	14,340	20,632
Local Affairs	163,880	89	-	1,968	26,868	-	33,062	(2,172)	223,695	71,032	152,663
Military Affairs	116,848	5	-	1,546	-	-	5,900	(110,419)	13,880	4,478	9,402
Natural Resources	159,068	10,146	-	131,673	31,064	-	44,449	(21,011)	355,389	107,563	247,826
Personnel	147,824	-	-	6,719	-	(33)	8	(1,405)	153,113	70,920	82,193
Public Health and Environment	260,978	1,651	-	1,633	32,460	-	34,781	(34,483)	297,020	137,424	159,596
Public Safety	185,882	753	-	690	26	-	36,155	(3,111)	220,395	85,877	134,518
Regulatory Agencies	67,956	273	-	13,050	452	-	1,604	(1,307)	82,028	40,686	41,342
Revenue	480,878	7,280	-	170,956	833	-	2,457	(1,223)	661,181	313,206	347,975
State	9,819	853	-	-	917	-	-	-	11,589	4,187	7,402
Transportation	1,325,544	16	2,843	1,467,442	12,656	-	548,410	(561,863)	2,795,048	718,660	2,076,388
Treasury	296,737	201	-	806,517	-	-	74,500	-	1,177,955	504,563	673,392
Controller's Non-Operating	-	198,830	-	103,738	-	-	-	(45,800)	256,768	256,768	-
Fiscal Year 2000-01 TABOR Refund	-	-	-	927,201	-	-	-	-	927,201	927,201	-
Capital Construction	-	(244,996)	-	11,161	889,593	-	15,375	(31,228)	639,905	391,540	248,365
Total Expenditures and Transfers-Out	\$ 12,785,353	\$ 79,399	\$ 3,560	\$ 6,946,062	\$ 1,086,253	\$ (33)	\$ 1,217,102	\$ (1,593,409)	\$ 20,524,287	10,169,088	\$ 10,355,199

EXCESS OF REVENUES AND TRANSFERS-IN OVER  
(UNDER) EXPENDITURES AND TRANSFERS-OUT

\$ (690,514)

\*Only state appropriated funds are included for this department.